

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

IN RE: INTERSTATE NAVIGATION COMPANY :
EARNINGS REPORTS : **DOCKET NO. 4373**

ORDER

I. 2018 Earnings Report

On August 2, 2019, Interstate filed its earnings report for the Fiscal Year ending (FYE) May 31, 2018. Interstate is required to file annual earnings reports that allow for the sharing of earnings where the return on equity (ROE) is in excess of 12%.¹ The method of sharing is subject to review by the Division of Public Utilities and Carriers (Division) and approval of the Public Utilities Commission (PUC).² Interstate's FYE May 31, 2018 earnings report showed earnings in excess of the 12% ceiling in the amount of \$1,531,901. The ratepayers' half of that was \$808,830. Interstate requested that \$300,000 of this amount be transferred to the fuel reserve account and the remaining \$508,830 be deposited in a capital reserve account that was approved by the PUC in 2018. Interstate noted that this was consistent with the treatment of overearnings for the period 2014-2017.³

On December 5, 2019, a Settlement Agreement between Interstate and the Division was filed with the PUC. The PUC issued discovery and, on February 18, 2020, after a review of the

¹ "Earnings in excess of 12% will be shared 50% for the stockholders and 50% for the ratepayers. Prior to proposing a method of crediting earnings above the [12.0]% threshold applicable to the ratepayers, Interstate will consult with the Division [of Public Utilities and Carriers (Division)] to propose a mutually acceptable method. The agreed upon method will then be filed with the Commission for review and approval." Order No. 21069 at App. A, Section III (Docket No. 4373 Settlement Agreement).

Id. On April 29, 2013, the Commission approved Interstate's revenue requirement and associated rates for effect May 24, 2013.² As part of the PUC Order, Interstate was allowed a Return on Equity of 11%, but with an Earnings Sharing Mechanism that begins at 12%. [http://www.ripuc.ri.gov/eventsactions/docket/4373-Interstate-Ord21069\(6-20-13\).pdf](http://www.ripuc.ri.gov/eventsactions/docket/4373-Interstate-Ord21069(6-20-13).pdf).

³ Order No. 23287; [http://www.ripuc.ri.gov/eventsactions/docket/4373-4792-Interstate-Ord23287%20\(10-4-18\).pdf](http://www.ripuc.ri.gov/eventsactions/docket/4373-4792-Interstate-Ord23287%20(10-4-18).pdf)

responses, approved the Settlement Agreement finding it to be a reasonable method of crediting the excess earnings to customers.

In the Settlement Agreement, the Division accepted Interstate's ROE calculations and their proposal as to how the resulting earnings would be shared with ratepayers. The Division also accepted the three proposals, consistent with the previously approved 2018 Settlement Agreement, addressing excess earnings for the period 2014-2017.⁴ The 2019 Settlement also provided for new items as outlined below.

The parties agreed to increase the Fuel Floor (or Base Price for Fuel) for fuel surcharge filings from \$1.50 to \$2.40 per gallon. During discovery on the 2019 Settlement, Interstate explained that the fuel floor had been set artificially low in the last rate case to deplete a large accrual of funds within the account.⁵ The Company also indicated that revising the base price for fuel to \$2.40 is closer to market price and is consistent with prior orders setting the base fuel price.⁶ Interstate also provided the most recent twelve-month averages for fuel.⁷ Finally, on this issue, Interstate also provided an accounting of the fuel reserve for the past thirty-six months.⁸

Interstate and the Division agree that non-commuter passenger rates should be reduced by 10% effective upon PUC approval of the 2019 Settlement. Interstate explained that commuter rates did not contribute to the excess revenues that the proposed rate reduction is addressing. When

⁴ Order No. 23287 (Oct. 4, 2018); [http://www.ripuc.ri.gov/eventsactions/docket/4373-4792-Interstate-Ord23287%20\(10-4-18\).pdf](http://www.ripuc.ri.gov/eventsactions/docket/4373-4792-Interstate-Ord23287%20(10-4-18).pdf). The 2018 Settlement Agreement provided for the creation of a new capital reserve account to be used by Interstate for capital projects with several conditions. It also allowed \$300,000 of the total accrued excess earnings to be deposited into the existing fuel reserve account. It further required that, commencing with Interstate's FY 2018 earnings report, Interstate will annually credit \$42,880 to customers. It shall continue to do so as long as the corporate tax rate remains at 21% or until Interstate's revenue requirement and rates are changed through a general rate case.

⁵ Interstate's Response to PUC 6-3, 6-4.

⁶ Interstate's Response to PUC 6-6.

⁷ Interstate's Response to PUC 6-5.

⁸ Interstate's Response to PUC 6-2.

rates were increased in 2015, the increase was limited to non-commuter passenger rates. Therefore, according to Interstate, where commuter rates were not increased in 2015, they should not be reduced in 2020.⁹

Interstate and the Division also agreed that effective June 1, 2019 (FYE 2020), the earning sharing mechanism will change. Earnings above 12% will be shared 75% to ratepayers and 25% to shareholders. The 75% will be used in accordance with the terms of the 2018 Settlement. Interstate indicated that the intent of this paragraph is that 100% of the ratepayers' share of overearnings would be deposited into the capital account unless the Division and Interstate agree to propose funding to the fuel reserve. Because the base fuel price has been adjusted, Interstate does not expect to need such a transfer into the fuel reserve.

II. Commission Findings

At an Open Meeting on February 18, 2020, after a review of the filings, the PUC approved the Settlement Agreement finding it to be a fair balance of the utility and ratepayer interests. However, the PUC expressed concerns that Interstate has historically been late in providing its earnings reports (due in November of the year in which the fiscal year ends) and its Annual Report (due prior to the end of the calendar year in which the fiscal year ends). Because they have been so regularly overearning, the effect is that Interstate retains the earnings for longer than originally anticipated by the 2013 rate case Settlement and PUC Order. The PUC directed Interstate to provide additional information on the status of the FY 2019 Earnings Report and Annual Report, together with an explanation of measures it is taking to better meet the deadlines.

Following the Open Meeting decision, on March 19, 2020, Interstate explained that it is unable to automate the integration of electronic information from its billing and accounting system.

⁹ Interstate's Response to PUC 6-7.

This results in manual transfers that take additional time. Interstate advised that it is looking into new software to allow for more timely reporting. The PUC directs Interstate to provide semi-annual updates on its search for a software solution, commencing in November 2020.

Accordingly, it is hereby

(23850) ORDERED:

1. The Settlement Agreement filed on December 5, 2019 is hereby approved.
2. Commencing November 1, 2020, Interstate Navigation Company shall submit to the Public Utilities Commission, with a copy to the Division of Public Utilities and Carriers, semi-annual updates on the status of each year's respective Earnings Reports and Annual Reports, including estimated completion dates, together with a status report on its efforts to acquire a software system that integrates billing and accounting information.

EFFECTIVE AT WARWICK, RHODE ISLAND ON FEBRUARY 18, 2020 PURSUANT
TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED JUNE 25, 2020.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran, Chairperson



Marion S. Gold, Commissioner



Abigail Anthony, Commissioner

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws §39-5-1, any person aggrieved by a decision or order of the PUC may, within seven days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.